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FISCAL IMPACT STATEMENT

LS 6578
BILL NUMBER: HB 1689

NOTE PREPARED: Jan 13, 2009
BILL AMENDED:

SUBJECT: Provisional property tax bills.

FIRST AUTHOR: Rep. Candelaria Reardon
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: Local

Summary of Legislation: This bill provides that the use of provisional property tax statements is mandatory and not at the option of the county treasurer. It provides that subject to a waiver petition to the Department of Local Government Finance, the county treasurer must use provisional property tax statements for taxes payable in 2009 if the county auditor has not delivered the abstract for the 2008 assessment date by the effective date of the bill. It also corrects internal references.

Effective Date: Upon passage; January 1, 2008 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: Most counties send a single mailing each year containing bills for both installments of property taxes. Counties that send provisional bills must send bills in two mailings. Under this proposal some counties that would not have elected to issue a provisional bill would now have to do so. These counties would in effect have to mail two tax statements thereby doubling the processing costs of sending out tax bills. According to one county, the cost to prepare and send a tax statement is estimated at approximately $0.70 per mailing.

The use of provisional tax bills in many counties could restore normal cash flow and reduce or eliminate the cost of short-term borrowing for local civil taxing units and school corporations.

Explanation of Local Revenues: Under current law, a county may elect to send out provisional tax statements to its taxpayers if it did not complete the abstract of its property by March 15th of the tax payment year. The abstract is prepared when tax rates are certified and tax bills are figured. Provisional bills are based on 90% of the previous year's taxes. When the county completes its abstract, the county sends a reconciling statement in the amount of the actual tax liability minus the amount they paid under the provisional bill. If the actual tax is less than the amount paid under the provisional bill, the taxpayer would be issued a refund.

If the county treasurer determines that it is possible to send the reconciling statements by October 10th, the treasurer may currently request permission from the DLGF to issue the reconciling statement as a replacement for the second installment of provisional taxes.

Beginning with taxes payable in 2009, this bill makes the issuing of provisional statements mandatory if the county abstract cannot be delivered on time. Currently, about half of the counties are not expected to send out their 2009 tax bills on time. As a result, under this proposal, these counties would have to issue provisional bills.

Assuming that many counties could issue the reconciling statement in lieu of the second installment of property taxes, few refunds would have to be issued in those counties. However, if the reconciling statement is delivered after payment of both installments of the provisional bill, then the county will have to issue refunds to correct any overpayments. Property taxes for some types of property in some counties are likely to drop from 2008 to 2009 (See background information). Since the final tax bills for many taxpayers are expected to be reduced in 2009 and 2010, there may be more refunds to process in these years than in others.

Background: Because of the structural reforms of the property tax system introduced by HEA1001-2008, provisional billing for taxes payable in 2009 and 2010 would present special challenges for counties. HEA1001-2008 made significant changes to the standard deduction for homesteads, eliminated property tax replacement credits, eliminated state homestead credits after increasing them in 2008, eliminated school corporation tuition support and pre-school special education levies, child welfare and HCI levies, levies for the State Forestry and State Fair Funds.

Table 1 illustrates how the change in the standard deduction may impact this bill. In this example, homes are assessed at $100,000, $300,000 and $800,000. Homesteads will qualify for a supplemental deduction beginning with taxes payable 2009. This deduction is based on the homestead's net AV after subtracting off the traditional standard deduction. The supplemental deduction equals 35% of the first $600,000 of net AV plus 25% of any net AV that exceeds $600,000. Because of these changes, the deduction for a $100,000 home increased by about $20,000 over the deduction in 2008; a home assessed at $800,000 would see its deduction increased by about $250,000. The percentage of homestead AV lost to deductions varies depending on the homestead's gross AV. Lower valued homes have a higher percent of deductions than lower valued homes. On the other hand, higher valued homes are more likely to have tax bills that approach the circuit breaker cap. So, some homestead net tax bills could go up while others go down. This could impact the number of refunds that may need to be issued.

Table 1. Standard Deduction for Selected AV Values

Assessed Value	2008	2009
$100,000	$45,000	$64,250
$300,000	$45,000	$134,250
$800,000	$45,000	$293,750

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Treasurers.

Information Sources:

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